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COMMITTEE ON BANKING AND CURRENCY.

HOUSE OF REPRESENTATIVES.

SIXTY-SIXTH CONGRESS.

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AMENDMENT TO FEDERAL RESERVE ACT.

COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Thursday, September 25, 1919.

The committee convened, pursuant to adjournment, at 10.30 o'clock a. m., Mr. McFadden presiding.

The CHAIRMAN. The meeting will come to order. We will hear Mr. Harrison first.

STATEMENT OF GEORGE L. HARRISON.

Mr. HARRISON. The power to receive deposits was placed in the bill with the idea of defining the general powers of the corporation, and with the idea of eventually restricting the power to receive deposits to deposits in foreign countries, through regulation of the Federal Reserve Board, other than such domestic deposits as are incidental to or for the purpose of carrying out transactions in foreign countries. Some people have objected that this bill gives certain powers which would authorize these corporations to compete with domestic banks for deposits. It is thought, therefore, that if Congress puts in the bill itself what the Federal Reserve Board has prescribed in its regulations, there can be no objection on the part of those people who now feel that these banks may compete with domestic banks for deposits.

It may therefore be advisable to insert, after the word "deposits," in the first line, "outside the United States and to receive only such deposits within the United States as may be incident to or for the purpose of carrying out transactions in foreign countries or dependencies or insular possessions of the United States."

The CHAIRMAN. Would that mean demand deposits?

Mr. HARRISON. Oh, yes.

The CHAIRMAN. Do you think it is well for that institution to take demand deposits?

Mr. HARRISON. Outside the United States?

The CHAIRMAN. Yes.

Mr. HARRISON. They would have to do that, perhaps, to provide the necessary facilities for their customers abroad, facilities that competing foreign corporations give those customers. In other words, I thought it necessary in this bill to authorize this corporation to do abroad what other similar corporations do abroad, whether they are organized under the laws of this country, or under the laws of England or Germany or France or any other country. You see, a corporation of this character that has obtained its charter from the State institutions has a broad, general, unrestricted power.

The CHAIRMAN. And they receive deposits now in foreign countries?

Mr. HARRISON. Oh, yes.

Mr. STRAUSS. There is one bank in Peru that receives very large deposits, not in this country, but in Peru.

The CHAIRMAN. They are receiving deposits and checking against that account?

Mr. STRAUSS. Yes, sir.

Mr. HARRISON. Maybe there is some confusion from the fact that this bill has been spoken of more largely in only one phase—that is, the power to do what might be termed a general investment business. As a matter of fact, the bill is calculated to authorize the Federal incorporation of two characters of institutions—one a banking institution that would do a regular commercial banking business abroad in connection with foreign business, and the other one a general investment business of the kind that Senator Edge described so particularly at the last meeting of the committee. It is improbable, but not impossible, that a corporation chartered under this law would attempt to do both kinds of business, but it is conceivable that they may. In any event, the idea in making the bill in this form was to authorize national banks or anyone else, under the law, to organize either one or the other kind of corporation which I have just described—that is, the general banking corporation and the investment corporation. The Federal reserve act, already a law, contemplates just that. It authorizes a national bank to invest not more than 10 per cent of its capital and surplus in any corporation engaged in the business of international or foreign banking. An amendment which has just been passed by Congress provides that national banks may invest 5 per cent of their capital and surplus in corporations engaged in such phases of foreign financial operations as may be necessary to facilitate the export of goods. That contemplated what may more specifically be termed an investment company.

Mr. KING. What would be included under that word "phases"?

Mr. HARRISON. The original draft of the bill had the very specific phrase authorizing the incorporation of investment companies engaged principally in a foreign investment business.

The CHAIRMAN. How would giving them that authority affect the present foreign exchange?

Mr. HARRISON. The chief purpose for which Senator Edge introduced the bill was this: When an exporter sends goods from this country now instead of contemplating the receipt of the actual cash from the buyer at this time, he knows it is unlikely if not impossible that he will get his money from the buyer within two or three years. As a result many of the exporters in this country are trying to arrange through the Federal reserve bank renewal acceptance credits; that is, three months bankers' acceptances, with the right of two or three renewals. The Federal Reserve Board and various other officers of the Government have expressed the opinion that the Federal Reserve System was not intended to absorb acceptance credits with two or three renewals, when it is very obvious that the commercial transaction on which they were based would have expired long be-

fore perhaps even the first renewal. As a result the board has suggested that instead of giving a so-called commercial credit to finance those transactions through the Federal Reserve System, foreign buyers ought to go to the investment market in this country. That is, to borrow on long term, two or three years, to cover the period when they will set themselves on their feet again and begin paying us in the export of goods. That is really the only way they will ever do it.

The CHAIRMAN. That organization would be authorized to accept demand bills as well as long-time bills?

Mr. HARRISON. Yes.

The CHAIRMAN. Do you think it is a good plan to permit them to deal in demand bills?

Mr. HARRISON. I may not quite understand what you mean, for I do not see the necessity of their accepting demand bills.

Mr. STRAUSS. As Mr. Harrison explained to you, one class of business would be what he has outlined to you, people who would draw checks and want to borrow. The other purpose of the act was Federal incorporation for banks of a kind that were doing a commercial business, doing it now, and where they were doing it, were doing it under State charters. Those people are doing a strictly commercial business. There are some six or eight of those banks now organized under State laws who have made agreements with the Federal Reserve Board as to the nature of the business they will confine themselves to. The board has given permission to various member banks to hold stock in these State institutions. This bill, in this aspect, provides Federal incorporation for that kind of commercial business. That is one class. The other class of business that could be done under this act is the investment business. Mr. Harrison has just outlined the necessity for long credits, which should not take the form of renewal or short-term credits. I think, as Mr. Harrison said, it is unlikely that any corporation organized under this act would undertake to do both classes of business. I think they would incorporate under this act in some cases for one purpose, and in some for the other.

Mr. HARRISON. There would be no incentive to organize one corporation to do both kinds of business.

Mr. STRAUSS. If they did, they would keep them in separate departments.

Mr. HARRISON. Yes.

Mr. PHELAN. They would have to keep it in separate departments if the Federal Reserve Board said so.

Mr. HARRISON. Yes, sir.

Mr. PHELAN. But they would not have to keep it in separate departments if they did not say so.

Mr. HARRISON. As a matter of practice similar State corporations are doing it that way.

Mr. PHELAN. But it is a matter of practice?

Mr. STRAUSS. Yes, sir.

Mr. PHELAN. Do you think any institution should be given that power, as a matter of law?

Mr. HARRISON. I do not think the danger in not doing so is sufficient to justify requiring them as a matter of law to maintain separate departments. I mean even if you should assume they

would not follow the present practice, the danger in operating only one department would not be so great as to justify requiring them as a matter of law to form separate departments.

Mr. PHIELAN. These institutions are empowered to receive deposits?

Mr. HARRISON. They are, yes, generally; but under the regulations of the board it is so restricted that they can receive deposits in the United States only when those deposits are incidental to or for the purpose of carrying out any foreign transaction.

Mr. PHIELAN. So far as Congress is concerned, they can receive a deposit subject to demand, which they can invest in long-time investments, if they see fit?

Mr. HARRISON. Yes, sir.

Mr. PHIELAN. That is, as far as Congress is concerned.

Mr. HARRISON. If I may interrupt you, I suggested to the committee before you came in an amendment which would make it read this way:

To receive deposits outside the United States, and to receive only such deposits within the United States as may be incidental to or for the purpose of carrying out transactions in foreign countries or dependencies or insular possessions of the United States.

Mr. STRAUSS. That is a limitation that the board imposes on these banks doing a foreign business.

Mr. HARRISON. I think it advisable to put that in the law.

Mr. PHIELAN. I think something like that should be in the law, rather than it should be left open.

Mr. HARRISON. I suppose they would be very glad to have it in the law, because it answers many questions in advance, and would obviate the necessity of further defining the power to receive deposits.

Mr. PHIELAN. What does that amendment mean?

Mr. HARRISON. We were discussing first the commercial part of this bill, the investment part. A bank that incorporates under this law would be allowed to do a general banking business for the facilitation of exports, and may, in order to compete with other institutions doing business in a foreign country, do a general deposit business. In other words, they could open an office in Rio de Janeiro and could receive regular demand and time deposits in Rio de Janeiro.

Mr. STRAUSS. They could do what the First National Bank of Boston is doing in Buenos Aires now, and the National City Bank is doing in South American countries, where they have opened branches.

Mr. HARRISON. The law gives them that power to receive deposits abroad, where they go into foreign fields to compete with other institutions established there.

Mr. PHIELAN. I do not know that there is any objection to their receiving deposits. There may be some objection to the absence of limitation, as to what they should do with the deposits after they get them. I do not know that there is, but there may be. For instance, in depositing a draft made in Rio de Janeiro by people in Brazil, there is no restriction at all as to how the draft should be used except so far as the Federal Reserve Board may make restrictions. Is that right?

Mr. HARRISON. Yes.

Mr. PHELAN. So far as deposits made in this country are concerned, can you tell what effect the proposed amendment would have?

Mr. HARRISON. If you will confine the deposit business in this country to the receipt of those deposits which are for transmission abroad, or which are for the purpose of facilitating the export business and the domestic trade—

Mr. PHELAN. That is a term I would like explained a little bit.

Mr. HARRISON. For instance, take these State institutions incorporated under the laws of Connecticut at the present time. They open an office in New York. Under the New York law they can not in any way receive any deposits from any one in New York, regardless of how necessary it may be for the customer of the institution to transmit funds abroad. They could not receive a deposit of money even for the purpose of buying foreign exchange to pay for the purchase of goods abroad. It is a very serious handicap. Such an institution as that, I think, would jump at the chance of incorporating under this bill, because under this bill a corporation doing business there and opening an office in New York could receive those deposits, for the purpose of transmission abroad, in order to enable the local customer to buy goods abroad, as an incident, perhaps, to his export business.

Mr. STRAUSS. Did they not get a limited power to do business from the superintendent of banks in New York?

Mr. HARRISON. I understand that the New York corporations did, but he has not yet granted that same privilege to corporations chartered under the laws of Connecticut.

Mr. STRAUSS. The necessity might arise in a dozen different ways. Suppose an Ecuador firm should ship goods up here and sell them and say, "Leave the proceeds to our credit until we tell you what to do with it." That would be in effect a deposit.

Mr. PHELAN. That is a deposit by a foreigner.

Mr. STRAUSS. Yes; but it is within the United States, or he may instruct them the following week to buy merchandise here to be shipped down there, or to pay the cash over to some export house here through whom they had bought merchandise. While the cash remains with the bank, it is a deposit within the United States, which would be incidental to the banks' foreign business. That is covered by the phrase that Mr. Harrison suggested as an amendment here. Will you read that again?

Mr. HARRISON [reading]:

To receive deposits outside the United States, and to receive only such deposits within the United States as may be incidental to or for the purpose of carrying out transactions in foreign countries or dependencies or insular possessions of the United States.

Mr. STRAUSS. Yes; I understand that. I am trying to see how broad that power is.

Mr. HARRISON. They could not receive ordinary demand deposits in this country.

Mr. STRAUSS. Mr. Phelan, you mean the power in regard to deposits?

Mr. PHELAN. Yes; deposits in this country.

Mr. HARRISON. They could not receive unrestricted or unlimited demand deposits in this country, because there would be no assur-

ance that they are incidental to foreign business, but where the deposit is made for a specific purpose which involves a foreign element, or where it is a necessary result of a foreign transaction, then the bank not only would have the power, but ought to have the power to receive deposits.

Mr. PHELAN. There is no desire to receive general demand deposits in this country?

Mr. HARRISON. No. They would not have the authority under this amendment, and they do not want to do it.

Mr. STRAUSS. It may interest you to know that, in relation to these institutions, the Federal Reserve Board has ruled that they must carry on these deposits that are incident to the foreign business such reserves as national banks are required to carry on their deposits. Is not that correct?

Mr. HARRISON. Yes; National banks in a central reserve city.

Mr. PHELAN. Reserve against deposits of that character?

Mr. STRAUSS. Even though they are incident to foreign business.

Mr. PHELAN. I will tell you why I am asking these questions. So far as the national banking act is concerned, we incorporated in the law certain restrictions. It may be we have too many. The question arises in my mind, if we are going to put all those restrictions into the law relative to national banks, and put none whatsoever in the law relative to deposits in banks doing a foreign business, whether we are doing the wise thing or not. We make no provision for a reserve, for example; that is left to the Reserve Board.

Mr. HARRISON. I am sure there would be no objection to inserting in the bill a regulation to apply to all these institutions, that they do carry a reserve of a percentage, equal to that required of national banks.

Mr. PHELAN. I am not disturbed as to what the Federal Reserve Board is going to do. I am not worried for fear they are going to open the door wide or anything of that sort, but I am concerned as to what we ought to do as a matter of practice, without reference to the present personnel of the Federal Reserve Board or its probable future personnel. It is just a question of how far we should go without power, without restriction.

Mr. STRAUSS. I do not see any objection to incorporating as a part of the law the reserve requirement we have made by way of regulation. The only question is, that there might be some change of conditions which might make modification necessary, in order to permit these banks to do business on the same basis as British or German or French banks are doing in foreign countries.

Mr. PHELAN. Yes, I appreciate that.

Mr. STRAUSS. It is very difficult to look ahead and tell what you are going to be up against.

Mr. PHELAN. The fewer restrictions we put upon it the better opportunity we give to meet the conditions as they arise.

Mr. STRAUSS. And they arise very rapidly, sometimes.

Mr. PHELAN. But in legislating I think we have to keep in mind that sometimes we have to suffer these inconveniences.

Mr. HARRISON. I should like to call attention to the distinctions the State laws themselves have made. The laws of the State of New York impose very strict regulations with reference to the deposits of regular commercial banks, and as soon as one of these corporations

incorporate under the investment law the restrictions are practically eliminated. For instance, the power of a corporation chartered under the investment law of New York to make acceptances is, as well as I remember, to accept time drafts drawn upon one of their customers. There is no limitation as to the time of maturity, no limitation even as to the aggregate amounts for one customer. The limitations, however, by the New York law upon those corporations doing a commercial banking business are perhaps more strict than they are in the national bank act; but the New York Legislature apparently realized that these investment corporations were going to do an acceptance business, and would in all likelihood do considerable foreign business, and ought to have a pretty free hand.

Mr. PHELAN. I am not speaking particularly about investment banks that do not take demand deposits.

Mr. HARRISON. Corporations of that character, that are chartered under the New York law, even though doing a foreign banking business, are chartered under the investment law of New York, and have a right to receive deposits of any character abroad.

Mr. PHELAN. They are required to keep a reserve against such deposits, are they not?

Mr. HARRISON. I am not sure enough to answer that, but I do not believe they are. I mentioned that only to show there is a legitimate difference between a corporation of that kind and a national banking association, and there is a difference in the necessity of imposing restrictions relating to deposits; but I think if you put in that suggested amendment that you have restricted the deposit business in the United States as much as is necessary. On the other hand, as Mr. Strauss pointed out, I do not see any particular objection to inserting the reserve requirement in the law, other than the fact that conditions may change so rapidly that it might be very necessary to change it at a time when you could not get Congress to act.

Mr. KING. Congress is in continuous session nowadays.

Mr. STRONG. We are not allowed to adjourn, either.

Mr. PHELAN. It is doubtful if the time will come when we will not have some kind of a reserve requirement.

Mr. STRAUSS. I do not think they will change that particular requirement.

Mr. PHELAN. What is the requirement now?

Mr. STRAUSS. Thirteen per cent, the highest amount the national banks are required to carry. I do not believe that is going to prove a hardship.

Mr. HARRISON. As a matter of fact, there is very little necessity in my mind for a reserve requirement at all, with reference to these deposits that are incident to foreign business, because they are more in the nature of a special deposit.

Mr. PHELAN. I do not know that there is.

Mr. STRAUSS. As a matter of fact, I think you will find these deposits are kept in very liquid form by all these banks, because most of them are very likely to be used in the manner indicated above. They probably would consist of money left there, perhaps the proceeds of a sale of commodities, and the banks would know that they would be used very soon, either for remittance or for the purchase of exporting merchandise from here. So, as a matter of banking prudence, I should think they would be kept liquid.

The CHAIRMAN. Is it customary to pay interest on these deposits while they remain there?

Mr. STRAUSS. I should imagine so. I do not know. I think most of the foreign banks do allow interest.

Mr. STRONG. Do you wish to discuss the amendments to this bill?

The CHAIRMAN. We are in open session to hear from these gentlemen in regard to the bill.

Mr. STRONG. In order to get started we might suggest this amendment.

The CHAIRMAN. I would suggest that we make a notation of them and have them printed in the hearing, and when we come to the point of amending it we can consider Mr. Harrison's suggestion.

Mr. PHELAN. May I suggest that we get each amendment that Mr. Harrison has proposed voluntarily, and which he has offered in response to the request of some member, in typewritten form, so we can have them when we take the bill up for consideration.

The CHAIRMAN. Yes. If you have any more amendments we shall be glad to hear them.

Mr. HARRISON. I would like to say that none of the suggestions really are gratuitous suggestions on the part of the board, but suggestions resulting from the conference Mr. Harding had with this committee. I do not know whether it was the committee sitting formally or with some members of the committee.

Mr. PHELAN. If you will make a note of the suggestions we can get them together and have them incorporated in the record.

Mr. HARRISON. If you desire I shall state them now and they can be taken in one place in the record.

Mr. PHELAN. I think it might be better if you would wait until we get through, and then we can take them up together. It is very easy for one to escape our notice, and it might be very important.

The CHAIRMAN. I suggest that you either make it in a statement or you can write us a letter embodying any suggestions you have, and they will be printed.

Mr. HARRISON. I shall be glad to do that. There is one amendment that I think needs a little discussion, perhaps, by the committee itself, with reference to the provisions of section 8 of the Clayton Act, which was discussed informally by certain members of the committee yesterday, and about which there has been a certain amount of misunderstanding.

The CHAIRMAN. Suppose you give your views on that phase of the situation.

Mr. HARRISON. The bill as originally proposed provided that the provisions of section 8 of the Clayton Act, relating to interlocking directorates, should not apply to directors, officers, or employees of these corporations. The Senate amended that provision so as to provide that they should apply. The result is an anomaly, in view of the fact that section 25 of the Federal Reserve act, which authorizes national banks to invest in the stock or corporations of this character whether chartered under State or Federal law, provides that with the approval of the Federal Reserve Board any officer, director, or employee of a member bank is authorized to serve as an officer, director, or employee of one of these institutions originally provided for in section 25, regardless of the restrictions of the Clayton Act. To assume a case of that kind, where a man is a director of one mem-

ber bank and two other institutions coming within the purview of the Clayton Act, he has gone his limit. Should he apply to the Federal Reserve Board for permission to serve also one of these institutions the board may then, under the terms of the existing provisions of the Federal reserve act, grant him permission to serve on one of these institutions, in addition to those on which he is already serving. The feeling was that the purpose of the Clayton act, which restricts interlocking directorates, could not properly be said to apply to a corporation of this character.

Mr. STRAUSS. Did it not go further than that, and provide that banks for which incorporation is provided should be subsidiaries of the banks that own the stock?

Mr. HARRISON. Yes. I was just coming to that. The Clayton Act makes an exception in the terms of the original act to exempt a man who is a director of an institution whose shares of stock are owned entirely by the share of another institution. He may then serve on both institutions. That is, where there is a complete unity of stock ownership there is no necessity for applying the provisions of the Clayton Act. In addition to that, you have the fact that these institutions do not compete with the domestic banks of deposit. They are doing a purely foreign business, and the purpose of providing the restriction against interlocking directorates would not apply to two institutions which by their very charters can not compete. A man who is a director of a member bank may, with the approval of the board, serve as a director of a State institution doing the kind of business authorized by the bill under consideration and in which the national bank owns stock; but under this bill in its present form he could not serve at the same time as the director of a Federal corporation doing that same kind of business. It is a discrimination, without any reason or justice, against the corporation which is chartered under Federal law.

Mr. NELSON. When that was amended in the Senate, what was the real reason for making the change?

Mr. HARRISON. I do not know. I think there was a good deal of discussion that arose chiefly because of the fact that there was also another provision which exempted these corporations from the provisions of section 7 of the Clayton Act, relating to ownership of stock in competing corporations, and it was felt that the real Sherman law should apply to corporations of this kind, as well as to mercantile corporations. I may be unfair in that, but I think the feeling against section 8 grew more out of that than anything else, because, had it been considered carefully it would have been seen that Congress has already enacted a law in section 25 of the Federal reserve act which authorizes a director of a member bank to serve in one of these institutions, whether incorporated under the Federal or State law. The Federal Reserve Board has, for instance, permitted a director of the First National Bank of Boston to be a director of the First National Corporation, a corporation organized under the laws of Massachusetts.

Mr. STRAUSS. Recently, I think, the First National Bank of Boston and the National Bank of Commerce of New York, joined with a large French bank and incorporated a company to do a French-American business, and unless that provision was changed it might be impossible for Mr. Alexander, as head of the Bank of

Commerce, to serve as director of a corporation in which his bank is largely interested, and which is going to operate in foreign business in France as his own subsidiary. Is not that correct?

Mr. HARRISON. Yes.

Mr. PHELAN. Could not Mr. Alexander serve as a director of that bank if he resigned from one of the other banks in which he may be a director?

Mr. HARRISON. Yes, he could; but when the Congress enacted the so-called amendment to the Clayton Act they admitted the injustice of permitting a man to serve in one member bank and in two other banks which did not compete with that member bank.

Mr. PHELAN. That is limited to two institutions.

Mr. HARRISON. But with the aggregate limitation, in all, of three institutions which would come within the terms of the original Clayton Act.

Mr. PHELAN. That same provision would apply even though the Senate provision should be adopted.

Mr. HARRISON. That is very true. Then comes the question of whether or not a man is authorized to serve also in one of these corporations which Congress has already thought he may properly serve on.

Mr. PHELAN. May it not be intended to prevent the same man from serving on an indefinite number of corporations, incorporated to do foreign banking business?

Mr. NELSON. In that connection, would it not be possible to limit the number of these banks that he could be a director of, so that the point Mr. Phelan makes could be safeguarded in the legislation? That is to say, he could only be a director in the banks in foreign countries established by his own home bank and not in foreign banks established by other home corporations under this act.

Mr. STRAUSS. In considering that, I think you should bear this in mind: The more you go into this the more complicated the subject is. Several of the State banks that have been incorporated under State laws to do this business have incorporated a separate bank under State laws for each foreign country in which they are operating, so as to avoid a condition such as came about in Russia, where some of our banks got very deeply involved, and where the parent bank is unlimitedly liable for any of the branches. I refer to cases where it is purely a branch. I know one of those banks incorporated to do business in Venezuela, and another in Colombia, and another in Peru, and of course the same directors would very likely be in each of these banks and also in the parent bank. They are in effect branches. I just wanted to call attention to that.

Mr. PHELAN. That is what I was going to refer to. As the bill stands—and I want to be corrected if I do not recall the Clayton Act clearly—a man would now be limited to directorship in three of the corporations formed under that act, if he were a director in no other banking institution.

Mr. STRAUSS. That is right, is it not, Mr. Harrison?

Mr. HARRISON. No; because under the terms of section 25 of the Federal reserve act, which is already a law, the Federal Reserve Board may grant authority to Mr. Alexander, for instance, who is an officer of a member bank in New York, to serve on not more than two other noncompeting banks and also to serve on a number of

these corporations, whether chartered under State or under Federal law, which are doing a foreign banking business. In other words, the Federal reserve act now authorizes the board to exempt from section 8 of the Clayton Act any director of one of these foreign banking corporations, whether State or Federal, in which a member bank owns stock. But if this bill as passed by the Senate becomes law, the exemption will be applicable only to the directors of State corporations doing a foreign business, and not to directors of a corporation organized under this proposed Federal bill.

Mr. PHELAN. I understand that. That is not quite the question. Suppose a man is a director in one national bank, and that provision as passed by the Senate is enacted into law, in how many of these institutions can he be a director?

Mr. HARRISON. Two. You are assuming a corporation of that kind under the Federal law?

Mr. PHELAN. Yes; under the Federal law.

Mr. HARRISON. Two.

Mr. PHELAN. Suppose he is a director of the Federal corporation, in how many of these corporations formed under the provisions of Senate bill 2472 can he be a director?

Mr. HARRISON. Three, because of the fact that the Clayton Act does not apply to national banks as such, does not mention the word "national banks." It refers specifically to corporations "organized or operating under Federal law."

Mr. PHELAN. So it limits him to three?

Mr. HARRISON. It limits him to three.

Mr. PHELAN. You believe that as it is a man could be a director of only three corporations formed under the provisions of that act?

Mr. HARRISON. Yes. It would virtually amount to making it two, because he probably could not get that job unless he was already a director in a national banking association.

Mr. PHELAN. Do you think conditions are such that it might virtually handicap the operation of this system?

Mr. HARRISON. I do, because the great majority of men elected to the directorates of corporations organized under this Federal law are already serving as directors of three banks, under the provisions of the Kern amendment of the Clayton Act.

Mr. PHELAN. Do you think it is objectionable to permit a man to serve on any corporation incorporated under that act, if it is desired?

Mr. HARRISON. I think it is not only not objectionable, but it may be highly desirable, if not necessary, in certain instances, as Mr. Strauss has already indicated. Where a national bank forms one of these corporations to do a foreign business, it finds it desirable and frequently necessary to incorporate a separate institution to operate in another country, and if they are going to branch out and do a foreign business in more than one country it may be necessary to incorporate five or six of those corporations. It would be a great handicap to say that a director serving as a director in one of these institutions could not serve in all the corporations in which that same national bank owns stock.

Mr. STEAGALL. If that were done, it would leave it open so a man could serve on various corporations of that kind, competing with each other.

Mr. HARRISON. Conceivably. Under the terms of the law, none of these men can serve on any of these institutions that are not member banks, without the approval of the board, and the question would be whether or not it is sufficiently desirable to restrict as a matter of law, what may be highly desirable in some instances.

Mr. STRONG. Could you not frame this law so that we could permit a man to serve as a director on one of these foreign banking concerns, and any of its branches that might be established in foreign countries, and yet not permit him to serve as a director on any other foreign banking institution that would be incorporated under this law?

Mr. STEAGALL. That is the idea I had.

Mr. HARRISON. The answer to that is that while one of these corporations may operate in a foreign country, through the ownership of foreign corporations, it may be desirable some time for them to operate in a foreign country, through the ownership or control of another Federal corporation, rather than another corporation of another kind.

Mr. STRAUSS. I think the Congressman meant that a man might serve on several corporations under this act, providing one was subsidiary to the other.

Mr. STRONG. Yes. Suppose there was a corporation organized in this country for the purpose of engaging in foreign trade, a director of that corporation might be a director of the various banks they might establish in England, or France, or South America.

Mr. STRAUSS. Though separately incorporated under this act.

Mr. STRONG. Yes, sir.

The CHAIRMAN. Ten or fifteen in number.

Mr. STRONG. It seems to me he should not be allowed to also be a director of other corporations organized under this law that would also have banks in the same countries.

Mr. STRAUSS. I think there is no objection to that.

Mr. STRONG. It seems to me that under this law they could create a monopoly, by having a certain set of men on interlocking boards of directors in control of all these corporations that are engaged in foreign trade, in such a way that they might squeeze the market. Suppose they have a banking concern at Kansas City, Kans., for the purpose of handling the financial paper controlling the trade of the persons that are making shipments of cattle to England, and they control the finances of that institution. Suppose some of these incorporations that are incorporated under this act should make up their mind they would squeeze that industry a little bit—curtail its development. They could force down the price of cattle by limiting the extensions of credit until they were ready to permit it to rise again. Right now we have in the city to-day 39 cattlemen sent here by reason of a convention held in Kansas, because of the fact that they have lost \$60 a head on all the cattle in Kansas within the last 30 days. They held a mass meeting of cattlemen and sent 39 men to Washington to see if something could be done to prevent the bankruptcy of the cattlemen and a lot of banks in Kansas.

Mr. LUCE. Has that reduced the high cost of living?

Mr. STRONG. No; but because the Government finance board called its loans and the packers quit buying there was no demand for the cattle, and these men have lost \$60 a head.

The CHAIRMAN. The question is, how are they going to get food products, whether it be meats or other supplies?

Mr. STRONG. These men are very anxious to have this bill passed, and they took it up at their meeting yesterday and urged the immediate passage of this bill. But it seems to me that while we are passing it we ought to safeguard it so there will be no monopoly created among these banks who will extend credit in foreign countries, which would enable them to control the market. It can very easily be done, if you do not prevent it, for a bunch of men to control all these banks that are engaged in this foreign trade.

Mr. STRAUSS. I think it could be very easily done by limiting it, as you suggested. I do not think any one is ever going to be able to dominate foreign trade. Not only the jealousies of other American institutions, but the jealousies of foreign institutions would be such that it would not be feasible. I do not see why your suggestion can not be followed.

Mr. STRONG. I did not think it was possible for any set of men to control all the food products of America, but if something is not done, the packers in five or six years are going to control all the food products of this country.

Mr. STRAUSS. I think your suggestion could well be embodied in the bill. Going back to Mr. Harrison's observation as to the twofold purpose of this act, it is conceivable that the same body of men may incorporate two companies under this act, one to do an investment business and one to do a commercial business. You will have to have that in mind.

Mr. STRONG. I am not a banker. I am just suggesting this proposition to see if it will help us in framing this law so we can encourage the operation of these corporations to promote foreign trade, and yet not make it possible for them to form a monopoly and control the market.

Mr. KING. You are familiar with the Webb bill?

Mr. STRONG. Yes, I have heard it discussed.

Mr. KING. It relieves all those engaged in shipping stuff to foreign countries from the operation of it. They can combine.

Mr. STRONG. Then it ought to be changed. Let us put into this bill a clause providing that the Webb law shall not apply to this act.

Mr. STEAGALL. Let me make this suggestion, that it does no harm to permit a director in a member bank to become a director in one of these corporations in which they have stock or in which they are interested. I think that is very essential. But at the same time, we should safeguard the proposition of multiplied or interlocking directors of these foreign corporations.

Mr. STRONG. If it is considered that the Webb bill permits these gentlemen to form a monopoly, let us put a restriction in this law that the Webb bill shall not apply to these corporations.

Mr. KING. They have the authority, I think, so far as controlling exports and that part of the business is concerned.

Mr. STRONG. I want to build up corporations and encourage our foreign trade, but I do not want to build up a system by which a few men can control the market.

Mr. HARRISON. The amendment made in the Senate provides:

No corporation organized under this act shall engage in commerce and trade, or deal in commodities or foodstuffs, or as a condition of extending credit dictate or attempt to control the buyer or seller in the disposition of commodities, or interfere with the freedom of competition in the sale of commodities.

Mr. STRONG. Suppose they decide they can not extend credit along certain lines, close down the cattle business, that they will not make any more arrangements for credit for the purchase of cattle or the sale of cattle paper?

Mr. HARRISON. They have about 20,000 commercial banks already doing business in this country.

Mr. STRONG. I want to see these banks incorporated to handle this foreign trade, but if we do that we ought to safeguard it so that they could not so restrict the trade in commodities by limiting credits that would permit them to control the market. Suppose I am a director in all the banks incorporated under this act, together with two or three other men, and we get together and say, "Let us stop the sale and export of cattle by limiting credits and thus restricting the trade." When we do that, the cattle market goes down, and we, through an arrangement with the packers, permit them to go ahead and fill the cold storage houses, and then we again extend the credit and the market goes up. That is just the thing I want to avoid.

Mr. STRAUSS. If you are bent on doing that, you would not have to be a director to do it.

Mr. STRONG. No; but it would help.

Mr. STRAUSS. I am not against your position.

Mr. STRONG. I understand they might do it under cover, but I would rather they would do that than to be permitted to come out in the open, as they could do if we do not provide against interlocking directors in the corporations to be established under this bill.

Mr. STEAGALL. That would still be true, Mr. Strong.

Mr. STRONG. I know; but as we go along I would like to try to safeguard these propositions.

Mr. STRAUSS. I do not see why an amendment should not be made that would permit a director of a national bank or member bank to become a director of one of these corporations, or of as many other corporations under this act as are subsidiary to the first, but of no other corporations under this act that competes with this.

Mr. STEAGALL. That would save it exactly.

Mr. STRONG. I suggest that you gentlemen frame an amendment that would try to get away from that idea of control, by a single group of men of all the corporations that may organize under this law.

Mr. HARRISON. I will do that. I would like to suggest that the amendment be to the present provision of section 25, so that it will apply to State institutions as well as national; otherwise, you will discriminate against the national institutions.

Mr. STRONG. All right.

Mr. HARRISON. That would eliminate reference to the Cotton Act in this bill.

Mr. STRONG. If you think the Webb bill applies to these institutions, you might also incorporate an amendment providing that it shall not apply.

Mr. NELSON. I am interested in the statement with regard to the 39 cattlemen from Kansas being in Washington. You say they are interested in the passage of this bill?

Mr. STRONG. Very much. J. H. Mercer, of our State live stock sanitary commission; George Donaldson, president of the Kansas Live Stock Association; and ex-Gov. Stubbs are here with these cattlemen, and also Mr. Brewer, of the Bank of Commerce, in Kansas City, which handles a great amount of cattle paper, and they say the administration of the Government finance board has called practically all the cattle loans made during the war, so that the banks are afraid to go ahead and make loans, and the packers have so manipulated the market that the prices have gone down, and they say a conservative estimate shows the cattleman has lost \$60 a head.

Mr. KING. And they are advocating the passage of this bill as introduced in the Senate?

Mr. STRONG. No; but they want a proper bill passed to permit the incorporation of organizations to engage in foreign trade, to encourage the export of their cattle. They have asked me to urge forward our consideration of the bill and report it out of our committee. They have asked Mr. Campbell of Kansas, who is on the Rules Committee, to give this committee a rule so this bill may go through the House as promptly as possible.

Mr. LUCE. These suggestions of amendment have a concrete application here, and I would like the benefit of the judgment of the representatives of the board. It is well recognized that the distinction between legislation of continental Europe and the United States is that on the European Continent great latitude is given to administrative boards. The legislative bodies lay down general principles and allow the administrative boards to work out their application.

With us there is the directly opposite tendency to endeavor to anticipate all situations and provide against them by restrictions placed in the law itself. It may be ours is the better plan, although personally I am strongly of the belief that the European plan is the wiser course. In my own business I hire a man and tell him to go ahead and work out his problems and I hold him responsible, and I think the Government ought to do the same thing. But here is a proposition for us to come in competition with the managers of foreign trade in the hope of taking away some of their business, and therefore these two principles have direct application and are of vital importance. The German or the Frenchman can go to his administrative board and get an immediate change in the rules or regulations to meet a novel or unexpected change of situation. With us it would be necessary for our bankers to come to Congress, and perhaps take months, and perhaps years, before they could meet a new condition. I would like to ask the representatives of the board if they think, under these circumstances, where our institutions expect to compete with foreign concerns, in their judgment, it is wise for us to put into the law itself such changes as they have accepted. I can understand how, in the desire to secure legislation, representatives of the board very often accept suggestions of amendment, per-

haps in the hope of greasing the ways; but I want them to consider the matter further and inform us whether they think it would be better in this particular case, under these circumstances, to allow our Federal Reserve Board to take care of such matters, rather than try to anticipate every condition that may arise and put restrictions in the act itself.

Mr. STRAUSS. Personally, I should think that, so far as these matters can be left to the board, it would be better to do so. As a matter of fact, the board is not grasping for power. We are perfectly willing to have our powers restricted, to have any restriction that is workable, and we will get along as well as we can. Perhaps a good many of these suggestions should be embodied in the law, but necessity may arise to change these regulations, and I think to whatever extent that can be left to the board to administer it will be an advantage. I think some of the suggestions that have been made, so far as we can see now, could do no possible harm or could interpose no possible obstacle to the operation of these corporations.

Mr. LUCE. Do you think you are safe in saying that no harm can come from them?

Mr. STRAUSS. No. Experience of a lifetime in business indicates that you can never be sure that you can foresee all difficulties that may arise. We have to adapt ourselves so to act under laws that are more or less rigid, and may have to come back for amendments if we find them unworkable.

Mr. LUCE. Would you agree with me that this is a handicap in the development of these institutions?

Mr. STRAUSS. I think it is. I think it may be.

Mr. LUCE. And that in competition with foreign trade it is important to have as much latitude as they have?

Mr. STRAUSS. Undoubtedly. But the situation can be met in practice. If this act should prove unworkable they will be met through organizing corporations for these purposes under State laws.

Mr. LUCE. And that is what we are trying to avoid?

Mr. STRAUSS. That is what we are trying to avoid.

Mr. LUCE. And every restriction we impose increases the danger of that?

Mr. STRAUSS. Undoubtedly.

Mr. PHELAN. That does not excuse us from making restrictions that seem to be necessary.

Mr. STRAUSS. If they are practical and will work out.

Mr. PHELAN. It may be we ought to put restrictions in as a matter of law?

Mr. STRAUSS. I think you were not here when the Congressman made his first remarks.

Mr. PHELAN. I think I was.

Mr. LUCE. If we were going into Hongkong to compete with a German bank or French bank or English bank we would want our people to have just as good a show as the others have.

Mr. STRAUSS. Absolutely.

Mr. LUCE. Under the German or French system the German would not have to go to the Reichstag, or the Frenchman to the Assembly, or the Englishman to Parliament, but he goes to an administrative board and gets changes in regulations that will allow him to meet the situations as they arise. That is where it seems to me every

restriction we put in this law will handicap the American banker in his competition with foreign banks.

Mr. PHELAN. That may or may not be true, as it depends upon the restrictions. Mr. Strauss quoted me as being against these deposits.

Mr. STRAUSS. I said you raised the question.

Mr. PHELAN. I do not think I was the one that raised it. I am asking the question for information. A good deal will depend on what kind of deposits you take. You take deposits as provided in the bill as it came from the Senate; I doubt, with the practice that we have had in this country, that I would want to see all demand and reserve eliminated.

Mr. STRAUSS. As a matter of fact—let me answer what this gentlemen said—each of these institutions incorporated under State laws that have come to the Federal Reserve Board and have asked to qualify as a bank in which member banks might hold stock have been compelled by the board to make a contract that dealt with every feature, such as reserve and other matters, and they have been compelled to agree, by action of their board of directors, to conduct their operations within the limits of those restrictions. We modified our requirements once or twice when the banks have come to us and represented the requirements were burdensome in one respect or another. We have asked that the representatives of all those banks come down here and we have discussed the questions with all of them sitting together—institutions that were competing with each other. I do not think there is any possibility of any combination between them, because each one is out after the other's business.

The CHAIRMAN. Is there pretty keen competition existing among these eight or nine institutions doing foreign business?

Mr. STRAUSS. To a certain extent they operate in different territories and to a certain extent they overlap. Certain banking institutions are starting subsidiaries to do business in the Orient, though not themselves organized to do business in the Orient, and they will undoubtedly compete with the older established institutions. The First National Bank of Boston and the National City Bank operate in South America. The Mercantile Bank of the Americas operates principally in Central America and South America. The American Foreign Banking Institution, I do not think is operating very actively abroad as yet. But each of those corporations is looking out for itself.

The CHAIRMAN. I notice in this report they undertook to organize in France an institution similar to this, which is a semi-Government institution, proposing to carry on and expedite foreign trade. That raises the question of whether or not there is any understanding between the countries of the world in regard to the organization of these institutions, or is that just an outgrowth of necessity?

Mr. STRAUSS. I think it is an outgrowth of the necessities of the case. I never heard of any such understanding.

The CHAIRMAN. There has been no international conference in regard to the organization or promotion of organizations?

Mr. STRAUSS. Not so far as I know. I should undoubtedly have heard of it if there has been.

Mr. HARRISON. There is one more suggestion I would like to make in reference to Mr. Phelan's statement that the bill as it came from the Senate authorized the unrestricted power to receive deposits.

Mr. PHELAN. Subject, of course, to the regulation of the Federal Reserve Board.

Mr. HARRISON. And a further restriction that "no corporation organized under this section shall carry on any part of its business in the United States except such as, in the judgment of the Federal Reserve Board, shall be incidental to its international or foreign business." That would refer back to its power to receive deposits, as well as other powers, but it was thought advisable to insert it again specifically, because of the fears of certain persons interested in the bill.

The CHAIRMAN. Might that mean such classes of paper as was mentioned, cattle paper, could not be handled by it?

Mr. HARRISON. It could be handled only so far as it facilitated the export business. It is a close question, where a cattleman sells his goods to somebody located in New York, who in all likelihood will export them, whether or not the first original transaction could be financed by that corporation, because that contract of sale to the New York buyer would be independent of the export transaction, and would have to be financed. I should think, by some other bank; but if the cattleman arranged, either through an agent, or directly, to export the cattle, and he shipped those cattle to the seaboard, billed through to the foreign port, then the corporation could finance the whole transaction.

Mr. STRONG. And if the directors of all the foreign financing corporations were in such close relation to each other and they decided they would not extend such credit for a while, it would break the market. That is what I want to avoid.

Mr. HARRISON. I think not. I think all will agree with you in your desire to avoid that, but I do not believe your fears are quite justified by the circumstances. As a matter of fact, that business is being handled now by commercial banks. Those same banks will continue to operate, and to the extent that they continue to do any foreign business they will be in competition with these institutions. The commercial banking feature of the export business will to a large extent be handled by the commercial banks of this country, anyway, as in the past. Those banks, however, can not, and those that can do not want to, go into the investment business in conjunction with the commercial banking business. Europe can not now pay for the goods they buy from us. They have no capital, no way in which to pay cash. The only way they will ever be able to pay cash will be by developing their own manufactures to the extent that they can begin to sell goods to us.

Mr. STRONG. And for that we should extend long time credit?

Mr. HARRISON. Yes; the only way is to give them two or three years' credit. These corporations will provide a means whereby the foreign manufacturer can obtain his raw material and not pay cash for it at once. He will be able to wait until he has manufactured and resold it as a finished product, which may consume a year or two.

Mr. STRONG. As was brought out the other day, the present rates of exchange between the countries are such that to press payment would result greatly to the disadvantage of the European customer, and if they are given credit for two or three years, they figure the rate of exchange might be equalized by the time payment is due.

Mr. HARRISON. I think they would be safe in saying that it will, at least, be better.

Mr. NELSON. I understand this long-time credit of two or three years has been extended in a large measure by the foreign banks, in Germany, England, and France. I would like to inquire whether that has been established as a precedent?

Mr. STRAUSS. No; I should not say that a precedent has been established. The German banks have always had the reputation, in Central and South America, of giving long commercial credits. I think their capital, in relation to their total assets, is larger than is the case with us or with the British banks. The situation we are facing now is one without precedent, and that if European customers who are low on working capital need credit, they should have that credit for two or three or four years, until they can get their industries going and build up a working capital. The effect of the war has been to leave their shelves bare of all kinds of commodities, and they are short of all raw materials.

Mr. NELSON. In the past, how long term credit has been granted?

Mr. STRAUSS. I can not tell you that exactly. All I know is that the German bankers have the reputation, instead of giving 90 days' credit, of extending credit for 9 months or a year. I think that is founded very largely on the fact that their capital has a larger relation to their total assets than in the case of our banks.

Mr. LUCE. Of course, in the long run, that is simply a loan to the foreign customer by the individual investor in this country. What does the board expect to develop in regard to that?

Mr. STRAUSS. I think it would be much more satisfactory to have our investors buy foreign obligations paying them a large return.

Mr. LUCE. You do not think the amount of 240 in German marks would go very far?

Mr. STRAUSS. He would not get that. If an investor bought a German bond, when he comes to remit—let us assume a German 5 per cent bond selling in Germany at 90—when he comes to remit for that, buying the marks at about 4 cents instead of 24 cents, that would represent a very small purchase price in dollars. If the buyer is confident that marks are going to rule at anything like the old rate, then he will have a very profitable investment. In the meantime, he will have a constantly growing return on his investment each year, owing to improvement in exchange. I assume that the investor is satisfied that marks will appreciate. I am expressing no judgment as to that. If a man buys the currency and leaves it on deposit he will not get as large a return annually in the way of interest, and he will not get the kind of document he is in the habit of getting. If he buys a foreign bond he gets something that looks more like what he is accustomed to.

Mr. LUCE. Then you do not see any great hope for relief to the situation in that respect?

Mr. STRAUSS. I should not think so. If a man has any money coming to him in Germany, or France, or Italy, I think a good many people would be inclined to defer remittance until a time when they expect more advantageous terms. The decrease in the rates of exchange of this currency, I think, would tend to postpone remittance. I do not mean pressure in the ordinary sense, but pressure from the point of view of business judgment. A man who gets lire as the

result of a commercial transaction, if he can afford it, might be inclined to wait six months and see if the result of remitting it here will not be more satisfactory. On the other hand, if an Italian holds American securities—that is an unfortunate illustration, because the Italians never have held large amounts of our securities, but say a Frenchman holds American securities, and through the decrease in exchange rates he has an incentive of a premium for selling his foreign securities. I was in Paris as one of the financial advisers to the peace commission, and during the armistice negotiations with the Germans I met a number of the German financial people in order to go over a list of securities that might be available for sale in this country to permit them to pay for food. We went through list after list, and I was impressed with the fact that we came to Japanese securities and inquired in regard to them; they said they had been sold long ago. They had been selling at 200 and more. That was for a 5 per cent or 4½ per cent bond. When that Japanese bond was sold it was remitted for in marks at their depreciated value. It illustrates the fact that to the German or Frenchman there is a strong incentive arising out of the depreciated exchange to sell their holding of foreign securities. This whole subject, I might say, was discussed at some length in the September number of the Federal Reserve Bulletin, and if you gentlemen are interested in it you might read that. We tried to deal with it in a way to make it clear. I do not know whether we succeeded or not.

Mr. LUCE. Yes; I think you did.

Mr. PHELAN. How would they buy marks and keep them for any length of time?

Mr. STRAUSS. You can go into the market in New York to-day and buy them.

Mr. PHELAN. What do you buy?

Mr. STRAUSS. You buy a draft on Berlin.

Mr. PHELAN. How long can you keep that draft?

Mr. STRAUSS. You send it to some bank in Germany and ask them to place it to your credit. You ask them how much interest they will allow you, if you leave it there for six months.

Mr. PHELAN. If you kept it there three years and marks went up, it would be worth very much more?

Mr. STRAUSS. Yes, sir. If I were considering such a transaction I would rather buy a German bond, in payment of which I could remit at a depreciated rate, and which might bring a return of 6 per cent, which is probably more than a bank would allow, because you would have the German Government, and not only the bank, behind it.

Mr. STRONG. Mr. Chairman, so far as the expressions of opinion from all the members of the committee are concerned, I think everybody seems to favor the passage of this bill. The question is of agreeing to amendments. We have asked these gentlemen to prepare their amendments. If in their opinion any of these amendments should be placed in this bill, I would like to have them, and I am sure every member of the committee would like to have them frankly and fully state it to us. We want all the help we can get in perfecting this bill and having it passed. Suppose we prepare this bill as we think it ought to be, and then do you think it would help to have a conference with the banking committee of the Senate?

The CHAIRMAN. That is a little premature yet, until we actually take up consideration of the bill.

Mr. STRONG. If we pass this bill, does it have to go back to the Senate before it goes to conference?

The CHAIRMAN. If we make any changes in it, the changes would be considered by the conference committee.

Mr. STRONG. It was suggested the other day that we substitute the bill we might prepare for this bill.

Mr. KING. The chairman made that suggestion.

Mr. STRONG. Would that send the bill to a conference of the House and Senate, or would it send the bill back to the Senate for its action upon it?

The CHAIRMAN. As a matter of fact, there were some changes in the Senate bill as passed that I think our committee should consider.

Mr. PHELAN. The procedure would be this: We either take the Senate bill and amend it, or we take up the bill we prepare and offer it as a substitute, and it goes back to the Senate. Then the Senate can accept it as amended, and that would end it, or they can ask for a conference, in which case a conference committee would be appointed.

The CHAIRMAN. To facilitate the early passage of the bill, I think we should take up consideration of the bill in the regular way and let things take their regular course. The pressure is such on the Senate, I think, that there will be no delay there; and certainly, if the report which you made here this morning to the effect that the chairman of the Rules Committee would grant a rule as soon as we are through with it, it seems to me there should be no delay in disposing of it.

I would like to ask you, Mr. Harrison, if there is immediately planned the organization of some of these foreign banking corporations under this law?

Mr. HARRISON. I think there is. I can only say that the board has received certain inquiries from some of these corporations already doing a banking business under State charters as to whether or not they would be authorized to organize and operate an investment company as a part of their banking organization. I mean a separate corporation but one owned by the banking corporation.

The CHAIRMAN. Is it the thought of the Federal Reserve Board that we could have a number of these institutions organized, or should it be confined to a very few?

Mr. STRAUSS. The more the better.

The CHAIRMAN. That being the case, is it not a natural sequence in the operation, in regard to efficiency, and so forth, that there will be consolidations later? Is it not a fact that to carry on this business would require that these institutions need large capital, and would it not be to the interests of the country in financing this tremendous trade that we hope to get that large capital and large institutions would be required?

Mr. HARRISON. I should think that would be a fair assumption.

Mr. STRAUSS. I did not quite get the point of your question.

The CHAIRMAN. After we had organized in this country 50 of these institutions, would it not be the natural sequence that in the

operation of the institutions it would be to the benefit, eventually, of the export trade of this country to consolidate them?

Mr. STRAUSS. You mean to finally get it into one?

The CHAIRMAN. Yes.

Mr. STRAUSS. I should not think so, any more than there should be a tendency toward consolidation of the First National of Boston—and of course, that would be a violent presumption—and the City Bank of New York. I should like to see as many such banks as possible. I do not believe there would be any tendency toward extreme consolidation, such as you refer to.

Mr. PHELAN. How many corporations of that character are now existing in England?

Mr. STRAUSS. I can not tell you.

Mr. PHELAN. Are there many or few?

Mr. STRAUSS. There has been a tendency to consolidate among the British banks. I saw last night the statement of the London Joint City and Midland Bank, and they gave a list of the consolidations since 1881. The London Joint City and Midland Bank has deposits of a billion and a half dollars, and I suppose they have absorbed 40 or 50 country banks. I think there are 6 or 8 of such large institutions now.

Mr. PHELAN. How is it contemplated that these corporations shall get the funds to carry out their purposes?

Mr. HARRISON. You are referring to the investment corporations?

Mr. PHELAN. Yes.

Mr. HARRISON. Of course, they start out with a capital of two million, for instance. They make advances to a foreign manufacturer, secured by a bank guaranty or Government bonds, or whatever security they as banking men think proper. That is the way they start. Later they will issue, under their power to borrow money, their debentures, secured by perhaps a collateral trust on all the foreign obligations that they own. There has been some talk by some people that perhaps they will sell their foreign obligations directly, but I think the opinion of those best qualified to know is that there will not be a sufficient market in this country for individual obligations of individual foreign manufacturers or concerns of various kinds abroad, and that the only satisfactory way to market those foreign obligations in this country is through the issue of domestic debentures, secured by a collateral trust on the foreign obligations.

Mr. PHELAN. There can not be anything like a sufficient amount issued on that capital to carry on the business contemplated, can there?

Mr. HARRISON. I should think not.

Mr. STRAUSS. Their capital must bear a fair relation to whatever business they do, whether they put out debentures or whether they market the assets they acquire. They will do business in whichever way they find to be most feasible. Their capital will probably have to be increased from time to time so as to get a proper equilibrium.

Mr. PHELAN. There is no requirement in the law as to that.

Mr. STRAUSS. No; but when needed there would be a strong incentive for them to do that. If there is not a proper relation be-

tween their liabilities and their own capital they would no be able to sell their obligations.

The CHAIRMAN. If this law is enacted as it is, could they, with \$2,000,000 of capital, issue \$100,000,000 worth of debentures?

Mr. HARRISON. Theoretically, but not practically.

The CHAIRMAN. Provided they could sell it.

Mr. PHELAN. There is no limit at all. Since, presumably, there would not be enough capital, what other ways are there? Putting out their own debentures, selling obligations which they have obtained from foreign countries?

Mr. HARRISON. Making a quick turnover of foreign investments would be one way.

Mr. STRAUSS. That would mean selling them?

Mr. HARRISON. Yes.

Mr. PHELAN. If they sold their foreign obligations, would they sell them without any guaranty on their part?

Mr. STRAUSS. If they could.

Mr. HARRISON. Yes.

Mr. PHELAN. Is there any authority in this bill whereby they can get a guaranty on those deposits or hold themselves liable in any way?

Mr. STRAUSS. Have they not that right without any specific authority?

Mr. PHELAN. That is something I think we ought to be very careful about. I think the courts in some cases have been inclined to grant them such authority as is implied.

Mr. STRAUSS. I have a vague recollection of that question coming up years ago in connection with the guaranty of railroad bonds. A firm of lawyers in New York held that the corporation that guaranteed them through owning the bonds, had the general power of indorsement, if indorsement was necessary, as a condition of sale. But that is a legal question on which I would not undertake to have an opinion.

Mr. PHELAN. I think the national banks are pretty well restricted, unless such implied powers are granted.

Mr. HARRISON. I think it is granted here. I am not sure, but I assumed it was in this phrase:

To purchase, sell, discount, and negotiate notes, drafts, checks, bills of exchange, acceptances, including bankers' acceptances, cable transfers, and other evidences of indebtedness.

Mr. PHELAN. You want to give them that power?

Mr. HARRISON. Yes, sir.

Mr. PHELAN. You want to give them the power to sell these acceptances?

Mr. HARRISON. Yes, sir. You can put in there "with or without their indorsement," if you desire.

Mr. STRAUSS. I think that should be there, because the business is to be done that way.

Mr. PHELAN. Is there a restriction upon the amount of real estate they can hold in this country or abroad?

Mr. HARRISON. No.

Mr. PHELAN. If these corporations desire to, would the Federal Reserve Board permit them to invest in real estate?

Mr. HARRISON. No, I think not. As a matter of fact, they are given no authority whatever to buy real estate.

Mr. STRAUSS. There would be nothing to prevent their taking a mortgage on real estate as security for advances?

Mr. HARRISON. No, they could do that.

Mr. KING. If they had to foreclose, they would have to take the real estate.

Mr. PHELAN. If they acquired the property in foreclosure proceedings, they would be holding real estate.

Mr. HARRISON. There is no provision requiring them to sell it.

Mr. PHELAN. Is it the opinion of the board there should be such restriction? There is such a restriction in the national bank act.

Mr. HARRISON. You mean to force them to sell such real estate as they may have acquired under foreclosure of mortgage?

Mr. PHELAN. Yes.

Mr. HARRISON. I do not believe there would be any desire on their part to hold the real estate as a speculation, and that would be their only purpose. They have no specific authority to buy it. They do have implied authority, by the foreclosure of mortgages, to acquire real estate, but that is all, I think you would perhaps encumber the bill with a needless protection if you insert a clause requiring them to sell real estate acquired under foreclosure of mortgage. They are not going into that business to the same extent that national banks do, anyway, and there would be no incentive for them to do it.

Mr. PHELAN. There is no provision in this bill for surplus?

Mr. HARRISON. No.

Mr. PHELAN. Do you think there should or should not be?

Mr. HARRISON. I do not think there should be.

Mr. STRAUSS. They are empowered to accumulate a surplus, any surplus the directors wish to hold. There is no power that compels them to declare a dividend.

Mr. HARRISON. No; but I think the Congressman means there should be a provision requiring them to establish so much surplus before they distribute their earnings.

The CHAIRMAN. It is a semi-Government institution, and has a certain amount of capital, and should have a certain amount of profits.

Mr. HARRISON. The committee might be interested to know that when this bill was first requested by a New York banker who subsequently organized a State corporation doing this business, he submitted with his request a copy of the report filed by a very prominent committee, appointed, I think, by Parliament on the necessity of Great Britain's forming a corporation of this character, in order to regain its foreign trade, and the capital which they proposed in that case was quite big. The figures are so large I would hesitate to submit my opinion, but I think it was a minimum of \$50,000,000.

Mr. KING. Do you care to give the name of the New York banker?

Mr. HARRISON. There is no objection to that. He submitted the report to the board with the view of having the board recommend to Congress that very legislation. It was Mr. Harris, who is now vice president of the American Foreign Banking Corporation, of New York.

Mr. STRAUSS. The British, as I remember, have given a special parliamentary charter to a bank known as the Foreign Trade Bank.

I am not sure that is the name. That was on the basis of the report of a committee appointed during the war. I think we can furnish you with a copy of the report and of the act.

Mr. KING. I would like very much to have a copy.

The CHAIRMAN. Mr. Harris has said he would be in Washington to-morrow, and that if the committee wishes to hear him, he will be glad to appear before it. I do not know what the pleasure of the committee is.

Mr. STRAUSS. He has the great advantage of knowing what the plans of his bank are and what would be necessary in the way of legislation to carry them out.

Mr. KING. Will you furnish the committee with that report?

Mr. HARRISON. I am quite sure it is available.

The CHAIRMAN. If Mr. Harris is going to appear before the committee, he may present it himself.

Mr. HARRISON. He probably will not have it with him.

Mr. STRAUSS. There is the report of the committee, and then there is the charter of the bank itself.

Mr. HARRISON. I have not got that.

Mr. STRAUSS. I think I have both of them.

Mr. STRONG. It is after 12 o'clock. Do you not think this committee ought to meet to-morrow?

The CHAIRMAN. I was going to suggest that we meet to-morrow at 10.30, and we will hear Mr. Harris or any other gentlemen who wish to be heard, and then we will decide about taking up the consideration of the bill and the amendments and make as early disposition of it as possible.

Mr. STRONG. I would make the suggestion that these gentlemen prepare what amendments they think should go into this bill. I do not want them to feel that every suggestion that has been made would have to be an amendment in order to comply with our wishes. If they will prepare such amendments as they think best and submit them to the committee to-morrow, and we invite Mr. Harris to appear, and after that we will be ready to get down to considering the bill section by section and disposing of it.

Mr. KING. I hope the gentleman from Kansas will not forget to frame the amendment he suggested a while ago.

Mr. NELSON. I think we should ask Mr. Harris to appear before the committee.

Mr. STRONG. Will you prepare what you think should go into the bill?

Mr. HARRISON. I shall be very glad to. I shall also prepare the other amendment you suggested.

Mr. STRONG. Yes; I think that should go in the bill.

Mr. PHELAN. Have you no doubt about the power to renew these charters under the provisions of the bill?

Mr. HARRISON. The bill provides succession for 20 years.

Mr. PHELAN. There is nothing said about renewals.

Mr. HARRISON. No.

Mr. PHELAN. Should there be some provision there?

Mr. HARRISON. The only way you could do that would be to delegate authority to some administrative board of the Government to renew the charter, as you authorize the renewal of national-bank charters.

Mr. PHELAN. As it is now it provides that these corporations shall have a life of 20 years. Do you give anything further than that, or would it require another act of Congress to extend that charter?

Mr. HARRISON. That would require another act of Congress.

Mr. PHELAN. If an institution was operating at the end of the 20 years, it would have to depend upon Congress to extend its life, and it might be that Congress would be so busy it could not act promptly.

Mr. STRONG. You have no doubt they will be here four or five years ahead of that time, have you?

Mr. PHELAN. No; but they should be put to that trouble.

Mr. HARRISON. It is very simple to authorize the Federal Reserve Board to extend the charter.

Mr. PHELAN. Will you draw an amendment of that kind?

Mr. HARRISON. Yes.

SUGGESTED AMENDMENTS.

FEDERAL RESERVE BOARD.

Washington, September 29, 1919.

Hon. EDMUND PLATT,

Chairman Banking and Currency Committee,

House of Representatives, Washington, D. C.

MY DEAR CONGRESSMAN: Upon request of certain members of your committee, I take the liberty of suggesting several amendments to Senate bill 2472, relating to the proposed Federal incorporation of institutions to engage in international or foreign banking or other foreign financial operations, which is now under consideration by your committee. Some of these proposed amendments are unimportant or merely formal in their nature. Others, however, are quite vital to the successful accomplishment of the purposes of the bill.

AMENDMENT 1. DISSOLUTION OF THE CORPORATION BY ACT OF ITS SHAREHOLDERS.

On page 3, line 23, after the word "dissolved," insert "by the act of shareholders owning two-thirds of its stock or."

The purpose of this amendment is merely to provide for the voluntary dissolution of the corporation prior to the expiration of its corporate existence by operation of law.

AMENDMENT 2. RENEWAL OF CHARTER.

At the end of the bill, page 10, add the following paragraph:

"Any corporation organized under the provisions of this section may at any time within the two years next previous to the date of the expiration of its corporate existence, by a vote of the shareholders owning two-thirds of its stock, apply to the Federal Reserve Board for its approval to extend the period of its succession for a term of not more than 20 years, and upon certified approval of the Federal Reserve Board such corporation shall have succession for such extended period unless sooner dissolved by the act of the shareholders owing two-thirds of its stock, or by an act of Congress or unless its franchise becomes forfeited by some violation of law."

The bill in its present form provides that the corporation shall have succession for a period of 20 years. There is no provision, however, for an extension of that corporate existence. Unless a renewal clause is inserted it would be necessary for any corporation organized hereunder to procure another act of Congress in order to extend its corporate existence beyond the 20-year period provided in this act. The amendment suggested above corresponds in substance to those provisions of the national banking act, which provide for the renewal of the charters of national banking associations. It seems advisable that the power to renew the charter should be vested in some administrative board, otherwise Congress would have to act upon each individual application for an extension of a charter. It should be understood, however, that Congress may, under the terms of the act as it is worded at present, dissolve any corporation organized under its provisions. Congress thus retains ultimate control of the corporate existence of every corporation chartered under the act.

AMENDMENT 3. INDORSEMENT OF NEGOTIATED PAPER.

On page 4, line 17, after the word "negotiate," insert "with or without its indorsement or guarantee."

Also same amendment in line 20, after the word "sell."

The purpose of this amendment is expressly to authorize the corporation to indorse and make itself liable upon obligations which it is selling. This power is probably implied in subparagraph (a), beginning line 17, page 4, of the bill, where the corporation is authorized to "purchase, sell, discount, and negotiate" notes and other evidences of indebtedness, but it is thought advisable specifically to confer the authority which the corporation must of necessity exercise under certain conditions in order effectively to carry on the business for which organized.

AMENDMENT 4. LIMITATION OF POWER TO RECEIVE DEPOSITS.

On page 5, line 1, after the word "deposits," insert "outside of the United States and to receive only such deposits within the United States as may be incidental to or for the purpose of carrying out transactions in foreign countries or dependencies or insular possessions of the United States."

Although the act in its present form, beginning line 8, page 6, provides that no corporation organized thereunder shall carry on any part of its business in the United States except such as in the judgment of the Federal Reserve Board shall be incidental to its international or foreign business, nevertheless because of the fears that have been expressed with reference to the general power to receive deposits conferred in line 1, page 5, it has been thought advisable expressly to incorporate into this particular paragraph of the law that limitation on the power to receive deposits which would necessarily be implied by the general limitation quoted above and which the Federal Reserve Board has incorporated into its present regulations governing the operations of similar institutions incorporated under State law. The limitation is perhaps redundant, but it is advisable in view of the doubts which have been raised in the minds of some of those persons who are most interested in the bill.

AMENDMENT 5. LIMITATION ON CHARACTER OF STOCK INVESTMENTS.

On page 5, line 24, after the words "United States," insert "engaged in the business of banking or in any other financial operations of the kinds authorized by this section, but."

Under the terms of the bill in its present form, subparagraph (c), page 5, authorizes any corporation organized under the bill, with the consent of the Federal Reserve Board, to purchase stock in any corporation without any express limitation upon the character of the business of the corporation in whose stock an investment is made. In order affirmatively to exclude the possibility of the corporation buying stock in or controlling the operations of manufacturing concerns or other mercantile corporations, and in order to anticipate certain objections which may be raised to the bill on this account, it is suggested that the bill be amended in the manner described above. This amendment would limit the stock investments of corporations organized under this bill to corporations engaged in a similar character of business, either in the business of banking or in other financial operations of the kinds set forth in the bill itself.

AMENDMENT 6. PUNCTUATION.

On page 5, line 25, eliminate the comma after the words "United States."

AMENDMENT 7. LIMITATION ON AMOUNT OF STOCK INVESTMENTS.

On page 6, line 3, after the word "that," insert "except with the approval of the Federal Reserve Board," and on page 6, line 5, after the word "surplus," eliminate all down to and including line 7, so that the proviso at the top of page 6 shall read: "*Provided, however,* That except with the approval of the Federal Reserve Board, no corporation organized hereunder shall invest in any one corporation an amount in excess of 10 per centum of its own capital and surplus."

The bill as passed by the Senate provides that no corporation organized under its provisions shall invest more than 10 per cent of its own capital and surplus

in any one corporation, except that it may invest 15 per cent of its capital and surplus in a corporation engaged in the business of banking. The necessary implication is that the 10 per cent investment may be made in any corporation other than one engaged in the business of banking, but the purpose of amendment 5 is to limit stock investments of these corporations to the stock of corporations engaged in the business of banking or other financial operations. It is believed that if this amendment 7 is adopted the stock-investment clause will conform more nearly to the needs and purposes of the act as contemplated by the act itself and as contemplated by the present provisions of section 25 of the Federal reserve act. The general limitation on all investments will then be 10 per cent, and no investment shall be in excess of 10 per cent except with the approval of the board. The necessity of permitting an investment in excess of the flat limit of 10 per cent may often be very great in those cases where the corporation can not either purchase or obtain control of a foreign banking institution as contemplated by the provisions of section 25 of the Federal reserve act, unless an investment in excess of 10 per cent of the capital and surplus of the buying corporation is permitted. In order to make the law sufficiently flexible to permit of the accomplishment of even those necessary purposes of the act the ultimate limit on the amount of the investment of any one corporation should be left to the discretion of the Federal Reserve Board, which for its own protection would not make exceptions to the flat 10 per cent limit except in those cases where the circumstances are such as to require it.

AMENDMENT 8. INTERLOCKING DIRECTORATES.

On page 7, eliminate lines 21, 22, 23, and 24, and, on page 8, eliminate lines 1 and 2. This amendment is necessary in order that the terms of section 8 of the Clayton Act, as amended by the so-called Kern amendment and as amended by section 25 of the Federal reserve act, shall apply to these corporations in the same manner and to the same extent as they now apply to existing similar State institutions. If the bill in its present form is enacted into law, these corporations will be placed upon a basis different from that on which similar State corporations operate, and it is believed that there is no logical ground for discriminating against the corporation organized under Federal law. By eliminating the lines recited above these Federal corporations are made subject to the Clayton Act and its various amendments upon the same basis as all other similar corporations.

AMENDMENT 9. SHAREHOLDERS' LIABILITY.

On page 8, strike out of lines 4, 5, and 6 the phrase "contracts, debts, and engagements of such corporation to the extent of double the amount of their shareholdings," and insert in place thereof the following: "amount of their unpaid stock subscriptions," so that the first sentence of the first paragraph of page 8 shall read "shareholders in any corporation organized under the provisions of this section shall be liable for the amount of their unpaid stock subscriptions."

The present bill in providing for the double liability of shareholders in a corporation organized under its provisions operates as such a handicap upon a corporation of this character organized under Federal law as distinguished from similar corporations organized under State law that it is probable that the purposes of this act would be entirely defeated.

On page 29 of part 1 of the report of the hearings before your committee there is printed a letter from Gov. Harding, of the Federal Reserve Board, addressed to Senator Edge, discussing the necessity of eliminating from the bill the clause imposing shareholders' liability.

AMENDMENT 10. FORFEITURE TO APPLY TO "VIOLATION OF" AS WELL AS "FAILURE TO COMPLY WITH" THE ACT.

On page 8, line 8, after the word "hereunder," insert "violate or."

This amendment is suggested in order that "violations" of the negative provisions of the act, as well as the "failure to comply with" the affirmative provisions of the act, shall make the corporate charter subject to forfeiture as provided in the paragraph beginning on line 8 of page 8.

AMENDMENT 11. CORPORATIONS TO BE TAXED IN SAME MANNER AS NATIONAL BANKS.

On page 10, strike out all of lines 16 and 17, following the words "shall be," in line 16, and insert in place thereof the following, "subject to tax in the same manner and to the same extent as national banking associations."

The present provisions of the act provide that corporations organized thereunder shall be taxed the same as "member banks of the Federal reserve system." Inasmuch as the term "member bank" includes a State bank which has become a member of the system, as well as a national banking association located in the same State, there may be some confusion as to which is intended by this phrase. It is believed, therefore, that if the corporations are made "subject to tax in the same manner and to the same extent as national banking associations," there can be no possible confusion of thought.

AMENDMENT 12. CONVERSION OF STATE INSTITUTIONS.

At the end of the bill insert the following paragraph:

"Any bank or banking institution incorporated by special law of any State or of the United States or organized under the general laws of any State or of the United States and having an unimpaired capital sufficient to entitle it to become a corporation under the provisions of this section may, by the vote of the shareholders owning not less than 51 per centum of the capital stock of such bank or banking association, with the approval of the Federal Reserve Board, be converted into a Federal corporation of the kind authorized by this section, with any name approved by the Federal Reserve Board: *Provided, however,* That said conversion shall not be in contravention of the State law. In such case the articles of association and organization certificate may be executed by a majority of the directors of the bank or banking institution, and the certificate shall declare that the owners of at least 51 per centum of the capital stock have authorized the directors to make such certificate and to change or convert the bank or banking institution into a Federal corporation. A majority of the directors, after executing the articles of association and the organization certificate, shall have power to execute all other papers and to do whatever may be required to make its organization perfect and complete as a Federal corporation. The shares of any such corporation may continue to be for the same amount each as they were before the conversion, and the directors may continue to be directors of the corporation until others are elected or appointed in accordance with the provisions of this section. When the Federal Reserve Board has given to such corporation a certificate that the provisions of this section have been complied with, such corporation and all its stockholders, officers, and employees, shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulations, in all respects, as shall have been prescribed by this section for corporations originally organized hereunder."

Respectfully yours,

GEOGE L. HARRISON,
General Counsel.

(Thereupon, at 12 o'clock noon, the committee recessed until Friday, September 26, 1919, at 10.30 o'clock a. m.)



